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The Manufacturers Hanover
Financial Digest
Economic Commentary, Selected Financial Data, and Business Indicators

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Some Bright Spots In Manufacturing . . .

At first glance the manufacturing sector of the U.S. economy still appears to be mired in the recessionary swamp which it first tumbled into in the middle of 1984, beset by a flood of imports, flat exports, low profits and declining manufacturing employment. Factory orders plummeted 1.4 percent in August and manufacturing employment fell by 38,000 jobs in September after a meager uptick of 1,000 jobs in August. Capacity utilization in America's factories is under 80 percent, seemingly discouraging capital investment.

Yet beneath this gloomy facade there are reasons for some guarded optimism about the manufacturing sector. For example, the announcement in early September that American businesses were cutting back even further on their capital spending plans than was previously anticipated was dismal news indeed—but only superficially. The 1986 slowdown of plant and equipment spending can almost entirely be blamed on the energy sector. If petroleum refiners are excluded, planned expenditures for 1986 hold steady compared with 1985. What is more, if mining—the other major component of the energy sector—is also excluded, total 1986 plant and equipment spending plans reverse direction from a 1.9 percent slide to a 1.3 percent rise. In fact, in the manufacturing sector, eight of 16 industries surveyed by the U.S. Department of Commerce are presently boosting their 1986 capital budgets. Increases of almost 12 percent over last year are anticipated in the aircraft and fabricated metals industries, reflecting the brighter picture for transportation and construction. Chemical, rubber and paper manufacturers also are planning to spend more on plant and equipment this year than last.

Yet another development that suggests improvement is the recent firming of industrial materials prices. Since late August the Commodity Research Bureau's index of raw industrials has risen eight percent. Led by a 44 percent rise in cotton prices, prices of eight of the 13 industrial raw materials surveyed rose, while two stayed flat and three fell. The rise in prices for these industrial inputs points up an improving balance between supply and demand and is a reversal of the sharp decline in raw materials prices which began in early 1984.

. . . Where Jobs Are Up . . .

A closer look at the otherwise gloomy manufacturing employment figures also reveals pockets of strength. Although manufacturing employment has fallen by 0.6 percent over the past twelve months, there are some manufacturing industries in which employment has risen over the same period. Of the 20 principal manufacturing industry sectors, nine have had year-over-year gains in employment. Among the more important, employment has increased in the lumber industry, printing and publishing, textiles, food processing, rubber, paper, furniture and transportation equipment industries. While some of the gains have been modest in terms of the number of workers involved, they do represent areas of rising economic activity, or else these industries would not be adding to payrolls.

The textile, lumber, and furniture industries, as well as the stone, clay and glass industry (which has also posted a small rise in employment) have benefited from the strong level of housing starts so far this year and the increase in residential expenditures on additions and alterations. By contrast, the gain in employment in the transportation equipment industry as a whole masks two very different scenarios within the industry. While employment in the aircraft industry rose a strong 5.8 percent over the past twelve months, the number of motor vehicle and parts workers fell five percent. Not only did strong defense spending benefit the aircraft industry but global demand for commercial aircraft to replace aging fleets added a beneficial fillip to both domestic sales and exports. The auto industry on the other hand, in spite of a good sales year, continues to suffer from powerful import competition.

Interestingly, textiles, one of the industries often cited as particularly subject to import competition, reports a 1.7 percent gain in employment in the past year. But as late as May of this year, employment was soft. However, plant restructurings, company mergers and consolidations, a more efficient use of

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resources and record levels of capital spending in the last three years have left this industry leaner and more efficient, although imports of textile and apparel products remain a major problem.

. . . And Profits, Too

Another way to measure improvement in the manufacturing sector is growing profits. It also provides another dimension for the more capital-intensive industries. Several industries have shown a marked upturn over the past year, some of which are emerging from very low profit levels of the past few years. A major contributor to improved profits has been the consolidation process which has resulted in mergers, acquisitions, or bankruptcies of marginal producers, leaving the market with fewer, more efficient firms. For example, the textile industry, whose after-tax profits doubled between the first half of 1985 and the same period this year, has experienced over 250 mill closings since 1980.

Yet another beneficiary of consolidation is the rubber and plastics industry which has also profited from declining petroleum prices, an important raw material for this industry. This industry's after-tax profits in the first half of 1986 were almost 22 percent higher than for the same period in 1985. Meanwhile, the stone, clay and glass industry sector whose net profits jumped 30 percent from last year's first six months to this year's, is a major supplier to the construction industry which is having one of its best years in recent history.

Chemical companies (including producers of

Selected Federal Reserve Data

(Averages of Daily Figures—Billions of Dollars)

	Week Ending 10/8/86	$ Change Since Week Ago	$ Change Since Year Ago
Reserve Bank Credit			
U.S. Gov'ts and Agencies Owned Outright & RPs	195.043	– 3.691	+17.057
Loans to Depository Inst.	.863	– .077	– .486
Float	.479	– .054	– .376
Total Reserve Bank Credit	212.923	– 4.411	+19.579
Treasury Deposits with Federal Reserve Banks	3.424	– 5.206	+ .515
Currency in Circulation	201.610	+ 1.288	+12.846
Gov'ts held for Foreign Acct. by F.R. Banks (End-of-Week)	162.954	+ .219	+37.176
	10/8/86		
Member Bank Reserves:			
Total Reserves Held	51.767	+ .204	+ 7.540
Excess (Deficiency)	.849	+ .128	+ .202
Net Free Reserves	.485	+ .176	+ .606
		% Change Since Three Months Ago*	% Change Since Year Ago
Monetary Aggregates †			
M1 (9/29/86)	693.6	+ 15.9‡	+ 13.3‡
M2 (August '86)	2,723.7	+ 11.2	+ 8.3
M3 (August '86)	3,399.8	+ 10.2	+ 8.6
Domestic Nonfinancial Debt (2nd Q'86)	7,181.0	+ 11.5	+ 13.1

†Seasonally adjusted.

*Seasonally adjusted annual rate.
‡Four-week moving average.

New York Money Market

Offering Rates 10/10/86	3 Months	6 Months	1 Year
‡ U.S. Treasury Bills	5.07%	5.12%	5.30%
* Federal Agencies	5.31	5.36	5.44
* Municipal Notes—High Grade (46% Taxable Equivalent)	6.02	6.02	6.30
Negotiable Time CDs Manufacturers Hanover	Rates By Arrangement		
* Secondary Market—Prime	5.64	5.62	5.75

‡Finance Company Paper—Prime

5- 14 days	5.65%
15- 29 days	5.68
30- 59 days	5.68
60- 89 days	5.65
90-179 days	5.62
180-239 days	5.55
240-270 days	5.55

‡* Bankers' Acceptances

Nov.	5.70%
Dec.	5.60
Jan.	5.53
Feb.	5.50
Mar.	5.48
Apr.	5.45

‡Industrial Paper—Prime

30- 89 days	5.66%
90-120 days	5.67

†Federal Funds Effective Rate 5.70%

‡Discount basis. *Subject to availability. †Estimated.

Selected Business Indicators

(All Dollar Figures in Billions)

	Latest Period or End of Period		Previous Period	Year Ago Period
Gross National Product (Current Dollars)*	2nd Q'86	$ 4,176	$ 4,149	$ 3,965
Gross National Product (1982 Dollars)*	2nd Q'86	$ 3,662	$ 3,656	$ 3,568
Percent Change, Annual Rate	2nd Q'86	0.6	3.8	2.3
Change in Consumer Prices*	Aug '86	2.4%	0.0%	2.4%
Change in Producer Prices*	Sep '86n	4.8%	3.6%	– 7.2%
Civilian Employment (Thousands of Persons) †	Sep '86n	109,891	110,155	107,519
Unemployment as % of Civilian Labor Force†	Sep '86n	7.0%	6.8%	7.1%
Personal Income*	Aug '86	$ 3,505	$ 3,493	$ 3,321
Leading Indicators Composite Index (1967=100)†	Aug '86n	179.1	179.5r	169.8
Industrial Production Index (1977=100) †	Aug '86	124.8	124.6	124.4
Change in Consumer Installment Credit †	Aug '86n	$ 3.74	$ 5.56r	$ 6.05r
U.S. Merchandise Trade Balance	Aug '86n	–$ 13.32	–$ 16.06r	–$ 12.89
Plant and Equipment Expenditures*	4th Q'86	$383.99(a)	$380.52(a)	$397.88
Private Housing Starts (Thousands of Units)*	Aug '86	1,822	1,815	1,737
New Construction Expenditures*	Aug '86n	$ 382.2	$ 378.1r	$ 353.3
Total Business Inventories †	Jul '86	$ 591.3	$ 588.9	$ 580.4
Total Business Sales †	Jul '86	$ 428.5	$ 425.5	$ 421.6

*Seasonally adjusted annual rate. †Seasonally adjusted. n-Newly reported figure. r-Revised. a-Anticipated.

drugs and pharmaceuticals) have had an almost five percent improvement in after-tax profits between the first halves of last year and this year. In the same period the fabricated metals industry and the electrical and electronic industry have seen their profits rise by over seven percent. And several industries have continued to be bright spots in the generally poor American industrial scene due to their acknowledged global leadership. These are primarily high technology industries such as aircraft and computers. Although these industries have not necessarily shown the highest growth rates in the last year, they remain among the stars of U.S. industry.

A perusal of the list of industries which have shown recent improvement in employment levels and/or profits suggests some reasons why these particular industries may have grown. In most of the cases their products find their markets in the service or construction sectors of the economy or directly in retail sales—all of which are sources of strength in the present U.S. economic environment. In several cases these industries produce goods which for a variety of economic or regulatory reasons are less susceptible to import competition. Rising employment, higher disposable income, low inflation rates, declining interest rates and prospects for lower individual taxes next year have all contributed to rising demand for housing, transportation and improved health care, which in turn, has benefited the manufacturing industries that serve these sectors. H

Short Term Paper Outstanding

(Millions of Dollars)

	Latest Week	Change Since Week Ago	Change Since Year Ago
Time Deposits of $100,000 or more Weekly Reporting Banks			
Nationwide (9/24/86)	154,721	+ 932	– 3,696
New York City (10/1/86)	33,727	+ 773	+ 782
Commercial Paper (10/1/86)	328,280	– 990	+49,157

Bank Loans

(Millions of Dollars)

Commercial and Industrial Loans

Weekly Reporting Large Commercial Banks	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/24/86)	257,130	– 1,519	+ 2,613
New York City (10/1/86)	58,271	+ 1,274	– 2,331

Total Loans and Leases Gross Adjusted

	Latest Week	Change Since Week Ago	Change Since Year Ago
Nationwide (9/24/86)	746,103	– 3,587	+ 53,564
New York City (10/1/86)	165,409	+ 4,416	+ 10,911

Financial Markets

	Friday 10/10/86	Change Since Week Ago	Change Since Year Ago
U.S. Governments, Closing Yields:			
90-Day Bills†	5.18%	– .03	– 2.27
180-Day Bills†	5.30	– .06	– 2.42
Longest Bills†	5.54	– .03	– 2.50
Recent Issues:			
6 3/8s 9/30/88	6.12	+ .02	
6 3/4s 9/30/90	6.63	–0–	
7 3/8s 5/15/96	7.33	+ .04	
7 1/4s 5/16/16	7.64	+ .12	
Municipals:			
Bond Buyer–20 Bond Index* (10/9/86)	7.06%	– .13	– 2.19
Blue List Total ($ Million)	$1,518	–$ 180	– $ 189
30-Day Visible Supply ($ Million)	$1,937	–$ 100	– $2,646
Total	$3,455	–$ 280	– $2,835
Corporates:			
Moody's Aa Composite (10/9/86)	9.31%	– .04	– 2.20
30-Day Visible Supply ($ Million)	$5,795	+$2,872	+ $3,360
Stocks:			
Dow-Jones Averages:			
Industrials	1,793.17	+ 18.99	+ 453.23
Transportation	824.13	+ 12.25	+ 176.66
Utilities	198.19	– 1.44	+ 44.10
65 Stocks	714.27	+ 6.52	– 171.16
N.Y.S.E. Composite Index	135.70	+ .89	+ 29.14
N.Y.S.E. Avg. Daily Vol. for Week (000's)	122,698	– 5,338	+ 26,652

* 46% Taxable equivalent 13.07%.

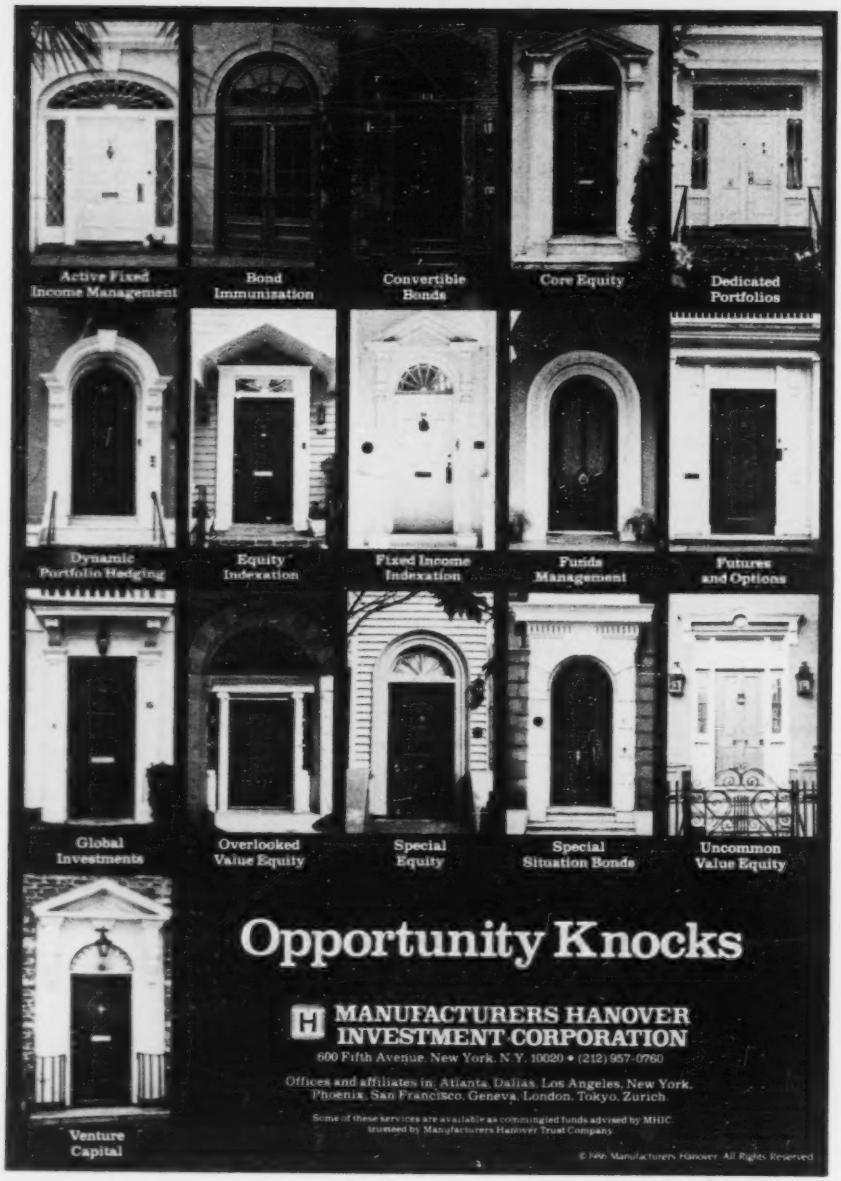
† Bond equivalent.

International Rates

EURODOLLAR DEPOSIT RATES (bid)	Friday 10/10/86	Week Ago
Overnight	5.75%	5.75%
1 month	5.75	5.86
3 month	5.75	5.86
6 month	5.75	5.86
1 year	5.86	5.94
EURODOLLAR BONDS Average Yield		
Medium Term (5 to 7 yrs.)	7.34%	7.57%
Long Term (7 to 15 yrs.)	8.19	8.35

FOREIGN EXCHANGE SPOT RATES

New York Opening (10/10/86)	U.S. $ Equivalent	Currency Per U.S. $
Belgium	.02405	41.58
Canada	.7216	1.3858
Denmark	.1327	7.5350
France	.1524	6.5625
Germany	.4991	2.0035
Italy	.0007212	1386.50
Japan	.006443	155.20
Mexico	.001270	787.50
Netherlands	.4418	2.2635
Switzerland	.6124	1.6330
U.K.	1.4285	.7000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